

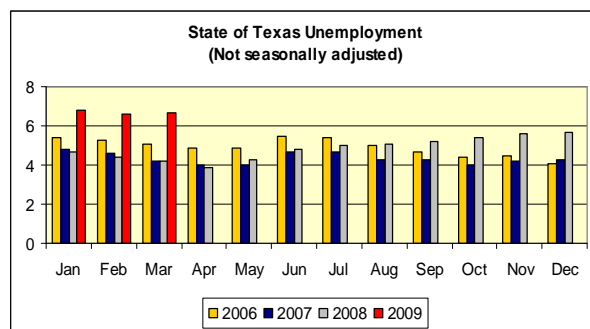
Economic Trends – April 2009

Texas Economy

The Economist highlighted the Texas economy in a March article titled “*Nowhere to hide: Even America’s most robust big state is suffering.*” The author describes Texas’s economic wounds as scratches when compared with other states. The Texas wounds include falling exports, sharp declines in manufacturing production, and job cuts.

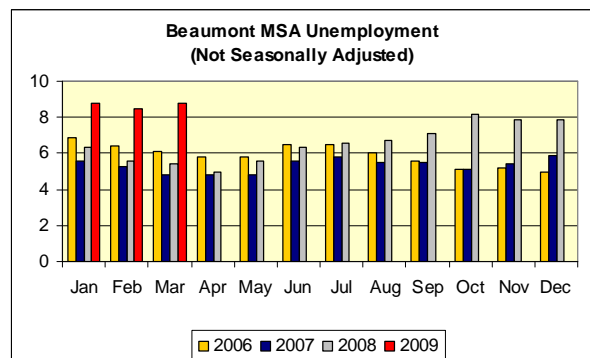
Texas’ unemployment rate remains well below the national rate. The unadjusted rate for March for Texas was 6.7%, compared to the US rate of 9.0%. The job losses for Texas hit the construction and manufacturing sectors the hardest.

The State has a Rainy Day Fund that will contain \$6.7 billion at the end of the current biennium that can help pay for vital programs during the next biennium. Stimulus funds may lessen the amount of dipping Texas does into the fund. Some have criticized this, but it does not seem to violate the stimulus rules. The State Comptroller projects biennial revenue changes as follows: a 2.9% increase in sales taxes, a 6.5% decrease in motor vehicle sales taxes, a 43.3% decrease in oil severance taxes, a 26.5% decrease in natural gas severance tax, and flat franchise tax revenue. (Note: Texas does not have an income tax.)



Beaumont / Port Arthur / Orange Area

The bad news is that the area continues among the three worst unemployment rates in the state. The good news is that the area had an increase of 300 jobs for March. Jobs losses occurred in three sectors: mining, logging, and construction sector (which includes oil and gas extraction), manufacturing sector, and in professional and business services sector (which includes engineering). Declines were 300, 200, and 100 jobs, respectively.



Stats from the state’s online job matching system, WorkInTexas.com, reflected a 20% increase in March as compared to December in active job seekers and a 15% decrease in job postings. The Workforce Solutions Centers have seen a 35% increase in walk-in customers. Note that many of the job seekers are currently working; they are just seeking other/better employment through the system.

In early April, CBI, one of the area’s newest large employers, laid off 80 – mostly welders and construction workers. Earlier in the year, CBI cut 24 office jobs and 89 craft workers. (Note: In this region, CBI does fabrication, engineering, procurement, and construction work.) Ineos, which produces cumene as an essential raw material for phenol and acetone, laid off 15 workers in mid-April.

Wider refining/production margins due to the lower price of crude have been helpful in minimizing layoffs as demand has declined for products of the dominant industries in the area - refineries and petrochemical plants.

No changes have been announced in the last month concerning schedules/intentions on the five major projects in the area: Motiva's \$7 billion refinery expansion, Total Petrochemical's \$2.2 billion Deep Conversion Project, Valero's \$1.6 billion hydrocracker expansion, Eastman's \$1.6 billion gasification project, and Golden Pass LNG terminal. Large pieces of equipment for the Motiva project continue being delivered through the Port of Port Arthur, and 2000 to 2500 construction workers are currently on site. Total hired 60 new operators between November and January. The Coast Guard issued a letter of recommendation in April for Golden Pass LNG, indicating that the Neches waterway is suitable for the expected vessel traffic at the facility, thus clearing one more federal hurdle for the project. Raising the global significance of LNG in the area, The LNG Carrier National Center for Expertise will open in Port Arthur in July.

In addition to these billion dollar industrial projects, various school bond projects for the region totaling \$900+ million dollars will be a boost for construction laborers, materials suppliers, and the area's economy.

Consumer confidence is moderately decreased in the area, but is certainly not the crisis that it is in other parts of the nation. This resilience is partly because of the billion dollar projects mentioned above and partly because of the economic bubble following Hurricane Ike. Even though Ike hit seven months ago, insurance settlement checks are still being cut and boosting the economy. The costs for repairing significant damage to industrial plants (caused by flooding) in both Orange and Jefferson County amounted to more than \$1 billion from September 2008 through February 2009.

The Ike bubble could account for some of the success of home appliance and consumer electronics retailer, Conn's, headquartered in Beaumont and with most retail locations in Texas. Conn's reported a 19.5% increase in revenue for the quarter ending Jan. 31 compared to the same quarter a year ago.

The flip side of the coin regarding Hurricane Ike is that projected revenue at current ad valorem (property) tax rates for local governmental entities and school districts for the next fiscal year will be significantly less due to decreased appraisal values on homes, businesses, and industries affected by the storm. Appraisal value will be based on condition of the property on January 1, 2009 - which, for many damaged properties, is less than January of 2008. Elected officials are working diligently with the Texas Legislature to find funding sources to help offset a significant increase in property tax rates. Decisions about rate hikes will be made during the upcoming budget cycles later this summer.

One issue of potentially large economic impact for the area that is being discussed this Texas legislative session is the amount of burden placed on coastal communities for funding the Texas Windstorm Insurance Agency (TWIA) and the pricing of policies by private insurance companies relative to TWIA.